REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER ALLEN COUNTY SHERIFF

Calendar Year 1998

EDWARD B. HATCHETT, JR.
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Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, County Judge/Executive
Honorable Bill Foster, Allen County Sheriff
Honorable Sam Bray, Former Allen County Sheriff
Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Allen County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff was required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Former Sheriff Should Have Required The Depository Institution To Pledge Additional Securities Of $530,065 As Collateral To Protect Deposits

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In accordance with Government Auditing Standards, we have also issued a report dated July 28, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 28, 1999

ALLEN COUNTY
SAM BRAY, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts		
State Grants		$ 9,720
State Fees For Services:		
Finance and Administration Cabinet	$ 8,782	
Cabinet For Human Resources	394	9,176
Circuit Court Clerk:		
Sheriff Security Service	$ 7,169	
Court Ordered	3,280	10,449
County Clerk - Delinquent Taxes		3,930
Commissions On Taxes		138,715
Fees Collected For Services:		
Auto Inspections	$ 5,379	
Arrest Fees	40	
Serving Papers	10,733	16,152
Other:		
Carrying Concealed Deadly Weapons Permits	1,680	
Miscellaneous	3,929	5,609
Interest Earned		2,844
Borrowed Money:		
State Advancement		54,000
Gross Receipts		$ 250,595
Disbursements		
Operating Disbursements:		
Personnel Services-		
Deputies Gross Salaries	$ 78,426	

ALLEN COUNTY
SAM BRAY, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1998
(Continued)

Disbursements (Continued)		
Operating Disbursements: (Continued)		
Materials and Supplies-		
Office Materials and Supplies	$ 5,186	
Uniforms	1,676	
Other Charges-		
Postage	1,341	
KLEFPF	5,852	
Carrying Concealed Deadly Weapons Permits	1,160	
Crime and Drug Abuse Prevention	3,373	
Phone	1,240	
Advertising	967	
Travel	276	
Memberships	300	
Miscellaneous	1,464	
Debt Service:		
State Advancement	54,000	
Total Disbursements		$ 155,261
Net Receipts		$ 95,334
Less: Statutory Maximum		48,726
Excess Fees Due County for Calendar Year 1998		$ 46,608
Payments to County Treasurer-		
March 11, 1999	$ 44,117	
September 17, 1999	2,491	46,608
Balance Due at Completion of Audit		$ 0

The accompanying notes are an integral part of the financial statement.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. As of December 31, 1998, the uncollateralized amount on deposit was $530,065. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end.

	Bank Balance
Collateralized with securities held by pledging depository institution in the county official's name	$ 500,000
Uncollateralized and uninsured	530,065
Total	$ 1,030,065

COMMENT AND RECOMMENDATION

ALLEN COUNTY
SAM BRAY, FORMER SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 1998

The Former Sheriff Should Have Required The Depository Institution To Pledge Additional Securities Of $530,065 As Collateral To Protect Deposits

The former Sheriff's deposits were not adequately secured by $530,065 as of December 31, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities for interest-bearing and noninterest-bearing deposits if either exceeds the $100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The former Sheriff should have required the depository institution to pledge sufficient securities as collateral to secure deposits at all times.

Management's Response:

No Response.

PRIOR YEAR:

The former Sheriff should have required depository institutions to pledge sufficient securities as collateral and entered into a written agreement to protect deposits. The former Sheriff obtained a written agreement from the depository institution September 1, 1998.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Edward B. Hatchett, Jr.
Auditor of Public Accounts

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Allen County Sheriff as of December 31, 1998, and have issued our report thereon dated July 28, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Allen County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Allen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 28, 1999